



Director of
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USSR: Economic Agreements with the West

Over the past 12 months, the USSR has signed long-term economic cooperation agreements with France, West Germany, and Canada and has raised the issue with Japan and Italy. The accords, although general in nature, provide Moscow with an explicit commitment by the Western governments to the principle of increased trade with the USSR and the desirability of Western private sector participation in Soviet economic development.

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The agreements call for: cooperation in areas such as energy, petrochemicals, motor vehicle production, and electronics; access to up-to-date technology through information exchanges; efforts to conclude deals on a compensation basis; and Western government-backed financing.

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The primary Soviet motive for concluding such agreements is to obtain a general commitment at the government level that supports Soviet efforts to gain access to Western technology and equipment and provides an expanded market for Soviet exports. While Moscow now recognizes that Western governments are limited in their ability to influence the private sector, it nevertheless believes that formal government-to-government agreements encourage private firms in their negotiations with the Soviets. Western governments see little direct benefit for themselves in the agreements but are willing to conclude them largely to accommodate the Soviets.

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IRAN: Political Strains

Ayatollah Khomeini seems increasingly frustrated over opposition to his Islamic Republic and continued terrorist attacks on his close associates. Both moderate and leftist secularists view Khomeini's strident criticism of them as evidence of growing clerical fascism and dictatorship. [REDACTED]

US Embassy sources have reported that Khomeini's verbal attack last week on secularists favoring a "Democratic Republic" is one example of the Ayatollah's frustration. Khomeini said that leftists as well as National Front and National Democratic Front moderates cannot ignore the role of Islam in government. He added that the concept of a "Democratic Republic" is hypocrisy and must be resisted. [REDACTED]

According to Embassy sources, secularists are disturbed by an unpublicized portion of Khomeini's message to Prime Minister Bazargan on Saturday calling for a referendum soon on the constitution. The message indicates that representatives will not be elected but "called" to join. This is being interpreted to mean that Khomeini intends that the constitutional process will be controlled by the Islamic movement to minimize dissent. [REDACTED]

Recent anti-American demonstrations and Khomeini's statement indirectly blaming the US for the attempted assassination of Ayatollah Hashemi-Rafsanjani have added to the concern among many secularists over the future course of Khomeini's xenophobia. More and more secular Iranians view Khomeini's political and social attitudes as neither practical nor feasible. It is uncertain whether the Ayatollah's recent conduct will generate cooperation between leftist and moderate secularists or provoke them into action, but groups across the political spectrum are increasingly critical of the aims of the revolution. [REDACTED]

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CAPE VERDE - USSR: Patrol Equipment

Cape Verde's President Aristides Pereira apparently has accepted a Soviet offer made last December to provide three aircraft to patrol Cape Verde's territorial waters. This summer the Soviets also will deliver to Cape Verde the last of three patrol boats promised last fall.

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The Soviets may hope these arrangements will increase their influence in Cape Verde, but the politically moderate Pereira almost certainly will continue his policy of nonalignment and his denial of Soviet military access to facilities in Cape Verde. Soviet interest in Cape Verde increased when the government in nearby Guinea prohibited Soviet TU-95 reconnaissance flights from Conakry in 1977, and was heightened with the sharp reduction in Soviet advisers last fall. The Soviets also may fear they will eventually lose access to the port at Conakry for their small West African naval patrol.

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Cape Verde will use the Soviet planes and boats to control fishing in its waters. Soviet instructors will train pilots for an initial period of six months. Some pilots apparently are training now in the USSR and Cuba. Ironically, Cape Verde may find itself using the equipment to track Soviet fishing vessels operating in waters off Cape Verde.

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MAURITANIA: Death of Prime Minister

Minister of Development Sidi yesterday was named acting prime minister, and the ruling military committee will meet "soon" to choose a permanent successor to Mauritanian Prime Minister Bousseif, who was killed in a plane crash on Sunday. The new leader is likely to emerge from the small group of military officers that has run the country since a coup ended civilian rule almost a year ago. Bousseif had assumed de facto control of the government in a palace coup early last month that relegated President Saleck to a figurehead position.

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President Saleck will seek to reestablish himself and a foreign policy that stresses Mauritanian independence from Morocco, its ally of recent years.

Likely successors differ somewhat in the way they would deal with Mauritania's intractable domestic problems--a weak economy and high racial tension--but apparently agree on the need to keep Mauritania out of active hostilities in the Western Sahara conflict. Over the past year, Mauritania has in effect ceded its portion of the Western Sahara to the Polisario Front. Mauritanian leaders disagree on the question of whether their country should seek a unilateral settlement with the Polisario or should continue to insist on settling within the confines of their alliance with Morocco.

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SPAIN: Wave of Violence

Following one of the bloodiest outbreaks of violence in recent years, Spanish military leaders on Sunday declared their support for Prime Minister Suarez' anti-terrorist program. Military discipline has held up well so far but could be further tested in days to come. Basque terrorists may be initiating a new wave of attacks aimed at provoking the military into preventing agreement between moderate Basques and Madrid.

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According to a government statement, the Joint Chiefs of Staff backed Suarez in a meeting held to analyze internal security. The meeting reflects high-level concern over military reactions to assassinations and a series of apparently unrelated incidents this weekend--including the bombing of a fashionable Madrid restaurant frequented by rightists--that left 13 dead. Basque ETA terrorists have claimed responsibility for the assassinations, but the bombing appears to be the work of the far-leftist Groups of Antifascist Resistance. There is no evidence of coordination between these two groups.

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ETA has been relatively inactive since the assassination of Madrid's military governor in January, possibly to avoid damaging the electoral prospects of Herri Batasuna--the Basque separatist party that supports ETA--and to allow time for rebuilding after several arrests and the French Government's decision to crack down on Basque refugees. Recent signs that Madrid is preparing to make concessions to Basque moderates to push through the Basque autonomy statute, however, may have spurred the terrorists back into action.

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GREECE-EC: Accession Treaty

//The European Communities and Greece yesterday signed an accession treaty in Athens that will make Greece the 10th EC member on 1 January 1981--following ratification by the Greek parliament and the parliaments of the nine present EC members. The treaty ended three years of sometimes stormy negotiations in which Greek Prime Minister Karamanlis often appealed directly to EC political leaders rather than deal with negotiators.//

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//For Greeks--and particularly for Karamanlis, who has favored membership at least since 1961, when he was responsible for Greece's accession to associate member status--the treaty has great political significance. "Joining Europe" is seen as yet another way to safeguard Greece's fragile democracy as well as its security. While there is concern in some Greek quarters that the Greek economy will not be able to compete effectively and that membership in the EC will be a burden, most Greeks--with the exception of the left--look favorably on prospective membership.//

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//From the EC perspective, the Greek application provided an opportunity to reinforce Greek democracy and to widen membership. It also opened up a debate about the wisdom of absorbing the more volatile southern tier states because of the economic costs, possible disruptive impact on EC procedures, and strains on further economic and political integration.//

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//Greek entry has evoked concern not so much on its own merits but for the precedents it might set for the accession of Portugal and Spain--much of whose agricultural sectors are highly competitive with those of some states already in the Communities. Negotiators in Brussels, therefore, preferred to take a cautious approach on the Greek application, but they were consistently overruled by EC political leaders. The Spanish and Portuguese negotiations with the EC could take, for different reasons, several years.//

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FRANCE: Proposed Euro-African-Arab Grouping

France is pushing for European-African-Arab consultations apparently with the long-term hope of organizing a regional grouping that would promote common political, economic, and strategic interests. The French have for years wanted to get the Arabs to help finance Africa's industrial imports from the EC countries, and this is one of the key motives for the present French effort.

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President Giscard first floated the idea of the "trialogue," as the French press is calling it, at a press conference in mid-February. He noted that a common approach to the political, economic, and human problems faced by Europe, Africa, and the Arab world could be helpful to international stability. Foreign Minister Jean Francois-Poncet later sought to give increased legitimacy to the idea by tracing it back to a "prophetic" passage in the writings of General de Gaulle in 1944.

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France, which currently occupies the EC presidency, brought up the trialogue proposal in Paris in mid-March; it apparently was neither rejected nor greeted with any particular enthusiasm. It was also discussed briefly at the recent Franco-African summit in Rwanda.

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Prince Fahd of Saudi Arabia reacted favorably to the proposal during his recent trip to Paris, as did Sudanese President Numayri, current chairman of the Organization of African Unity, following his recent conversations with Giscard in Khartoum. At a state banquet during that visit, Giscard said he had the support of other European leaders for his Euro-African-Arab initiative. Both Giscard and his Foreign Minister have stressed that the initiative is "directed at no one" and that the project is in the exploratory stage.

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Francois-Poncet noted in a recent speech that the motivation behind cooperation is not transitory. He cited the fact that 75 percent of trialogue trade takes place within the grouping. Paris appears determined to persist in trying to broaden the Euro-Arab dialogue, which it has long believed is too politicized and too dominated by the Arab-Israeli conflict.

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SPECIAL ANALYSIS

EGYPT: Impact of Arab Sanctions

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The other Arab states toughened their economic sanctions against Egypt significantly after President Sadat attacked Saudi Arabia in his May Day speech. Iraq's continuing aggressive efforts to intensify the sanctions have also contributed to the stronger Arab stand. Egypt's fears that it may face a financial crisis appear premature, however, as long as the Arabs do not apply even stronger economic sanctions.

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The growing split between Egypt and the rest of the Arab world has so far resulted in the following actions:

- Saudi Arabia has withdrawn funding for Egypt's purchase of F-5s from the US.
- Saudi Arabia, the United Arab Emirates, and Qatar have decided to disband the Arab Organization for Industrialization, which was to produce arms in Egypt.
- The Gulf Organization for the Development of Egypt has withdrawn its promised \$150 million for 1979 debt relief.
- Arab government-owned banks have withdrawn from Egyptian Eurocurrency loan syndications. These banks play a minor role in international finance, and there have apparently been no direct attempts by Arab governments to pressure Western banks.

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- Members of the Arab Civil Aviation Council, which does not include Saudi Arabia, have agreed to ban Egypt Air from landing in or flying over their countries and to stop some Arab flights to Egypt. There is some doubt, however, that this resolution will be implemented.
- Kuwait has withheld the disbursement of project loans for Suez Canal improvements--ostensibly because of loan arrearages.

In addition, Iraq and Syria have led Arab lobbying efforts to discourage non-Arab donors--particularly Japan--from aiding Egypt. Kuwait has also threatened to insist on the return of \$1 billion in official Kuwaiti deposits at Egypt's Central Bank; the first large repayment--up to \$300 million--would be due at the end of August.

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Impact of Recent Sanctions

Sanctions taken so far should not cause Egypt a payments crisis in the near term. Egypt's concern that a crisis could come later this year appears premature. Cairo should be able to cover the \$300 million foreign payments shortfall we are estimating for 1979 by using Eurocurrency loans and drawing on unused short-term credits.

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The Egyptian worries are a healthy sign if they lead to a more careful monitoring of the economy and implementation of conservative economic policies. So far, however, they have not been translated into action. If difficulties arise, Cairo probably will turn to the US for additional assistance.

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//Egypt will be operating close to the margin--without the Arab financial backstop upon which it has come to rely. A crisis could develop if Cairo decides to fund expensive military imports from its own resources, if it attempts to repay all of the Kuwaiti deposits, or if the air travel embargo, which would affect tourism, is applied by all the Arab states. Saudi Arabia has stated that it will not honor the air embargo, and Kuwait's

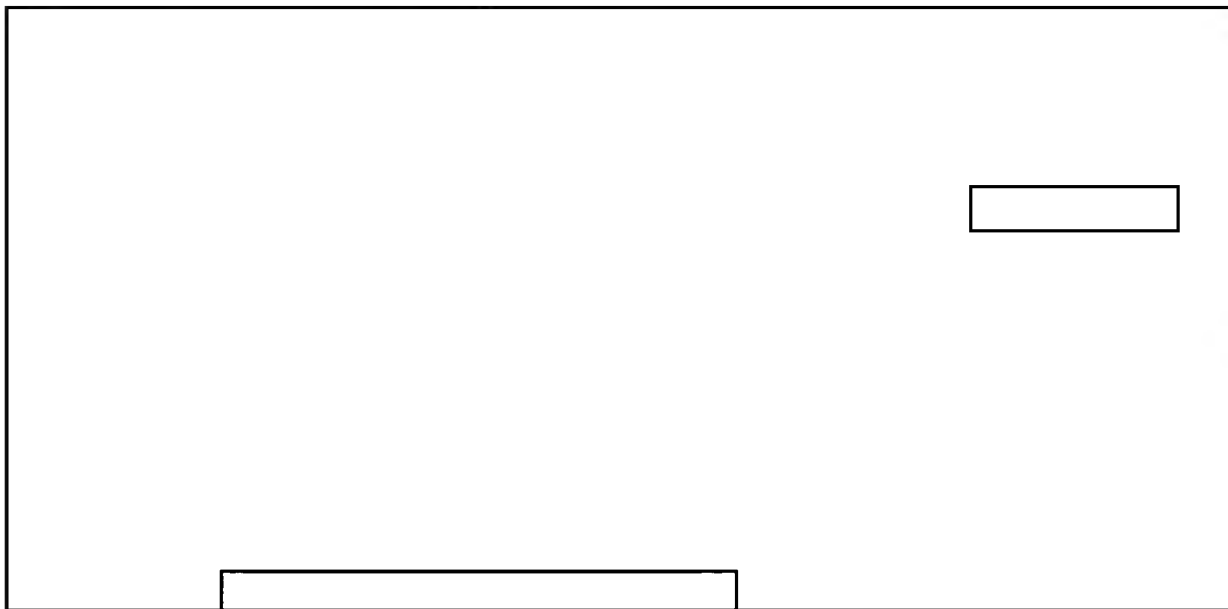
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support for the resolution seems to be waning. Both countries, however, are likely to be subjected to stiff Iraqi pressure to honor the air embargo.//

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//The public's strong support for President Sadat and his peace initiative probably would erode with the deterioration in the economy. While Sadat's initial reaction would be to strike back--perhaps by expelling Arab students, seizing private Arab investments in Egypt, harassing Arabs, particularly Palestinians living in Egypt, and rallying domestic support against the Arabs--this tough Arab move against Egypt might cause Sadat ultimately to reassess his tactics and strategy for dealing with the negotiating process.//

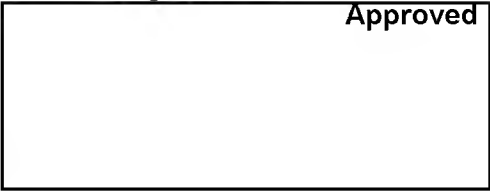
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